

Commonwealth of Virginia Mail Services Initiative



June 24, 2005

Final Recommendations



Commonwealth of Virginia Mail Services Initiative

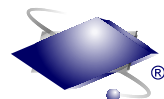
Contents of this report and attachments are the
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Prepared by:

**Federal Engineering, Inc.
10600 Arrowhead Dr, Suite 160
Fairfax, VA 22030
703 359-8200**

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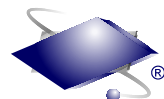
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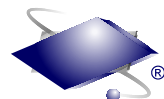
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1 Scope of Project

On April 15, 2005, the Commonwealth of Virginia (COV) awarded a contract to Federal Engineering (**FE**) to conduct Phase 2 of the Mail Services Initiative, which is to provide a recommended course of action for the Commonwealth's mail handling process. The recommendations impact the Commonwealth of Virginia agencies at the "Seat of Government" and will not impact "fringe" areas outside of the Richmond area which support agencies of the Commonwealth of Virginia. The study and recommendations specifically examined security issues related to mail handling as well as the overall mail handling process. A high level transition plan has been provided detailing next project steps.

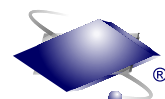
This intense ten-week effort began on April 18th and was primarily based upon the findings of the Commonwealth's Department of General Services (DGS) Assessment Study (dated November 2004). These findings were supplemented by individual site visits, investigation and analysis of additional data that the Commonwealth of Virginia provided in written responses to additional issues identified by **FE**. Analysis and review of other mail processing initiatives used in other state governments and private industry were also performed to identify possible best practices.

This effort examined known financials (extrapolated from the DGS study) for potential costs and savings associated with the recommendations. The scope of this project excluded factors that are very difficult to estimate at this juncture, such as; real estate, utilities and others not provided in the initial DGS study.

2 Executive Summary

2.1 Summation

Federal Engineering's recommendations are based upon the understanding and analysis of the Commonwealth's existing environment. **FE** has concluded the Commonwealth would benefit from both an efficiency and security standpoint by consolidating the complete inbound



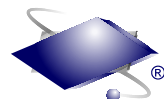
and outbound mailing processes into two load-leveled mail production centers. These two mail production centers would utilize current technology to:

- 1) Consolidate all inbound mail for the purpose of security checking and identification
- 2) Consolidate all outbound mail processing (print and insertion) for processing efficiencies and postal benefits.

Although the concept of the creation of consolidated Commonwealth of Virginia mail production centers is a long term strategic vision, **FE** recommends four short term options that can be the initial steps in the eventual migration to the long term vision. These short term options will allow the Commonwealth of Virginia to begin a transition to achieve some immediate benefits while still building toward the strategic vision. The long term strategic objective impacts many aspects of the business that were not accounted for in the DGS study. Further study will be needed to ascertain the complete impact on the Commonwealth's environment. The implementation of this long term mode of operation will require internal procedural and system modifications which could result in significant organizational impacts. The short term options will provide the Commonwealth of Virginia with immediate short term consolidation benefits while providing the building blocks for eventual development into the long term vision.

The recommendations are based upon the Commonwealth's directives, Federal Engineering analysis and investigation, and mail industry best practices that are currently employed in many professional mail handling environments. Many of the efficiencies to be realized are encompassed in the synergies of consolidating equipment and resources in addition to the efficiencies associated with processing consolidated mail volumes.

Federal Engineering has concluded that the Commonwealth can achieve short term ongoing efficiency savings in the range of \$499K to \$541K; with an additional \$261K cost avoidance for USPS mandated postal equipment upgrades with the complete implementation of the short term options. The Commonwealth will incur security costs in the post 9/11 environment of \$76K to \$1,305K depending upon level of security desired.



The recommended basic level of security using X-ray technology will cost approximately \$534K for full deployment. Associated annual maintenance to be incurred is estimated at approximately \$53K after the first year.

In addition to the above, an immediate savings of approximately \$35K annually can be achieved by re-negotiating the existing contract with the presort vendor, Mailer's Resource Group, in order to begin processing mail produced by the Virginia Industries for the Blind (VIB).

Due to the nature of the long term strategic vision, neither costs nor savings can be defined at this project level without first performing an in-depth analysis. This analysis will be performed in the next phase of the Mail Services project.

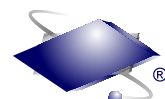
2.2 Key Drivers

2.2.1 Commonwealth Directives

Federal Engineering designed the recommendations around the Commonwealth's desire to create a secure, consolidated mail environment. Federal Engineering utilized industry best practices and industry standards in development of the recommendations. Taken into consideration were the recommendations of the "Virginia Secure Commonwealth Initiative: Reports and Publications" (as published by the Secure Virginia Panel dated 2002 from the Office of Commonwealth Preparedness headed by Mr. George Foresman). This directive states;

"Evaluate the feasibility of creating of an off-site central mail processing facility to serve all of the Capital Complex that would provide for appropriate and prompt screening of mail to the three branches. This analysis should include the feasibility of creating a public-private partnership where such a facility could serve local, state and federal agencies and interested corporate and private businesses located around the seat of government".

Additional analysis performed in the development of the recommendation was an examination of industry security standards used in mail processing by both the USPS and private agencies.



Federal Engineering analyzed the current Commonwealth of Virginia mail services operation and discovered that many individual agencies operate, in most cases, independently. Each agency performs their daily business functions related to the processing of inbound and outbound mail without any overall coordination. Many agencies rely upon either internal or external courier services to retrieve USPS mail. Mail is accepted by most agencies with a low degree of security precautions. Most agencies possess some type of mail handling postal equipment (meters, scales, bases) and usually these agencies negotiated the leasing/purchasing arrangements without direct involvement of the Department of General Services (DGS) procurement organization. Outbound mail is usually handled either mechanically (print and insertion, in larger agencies) or semi-mechanized (print, manually inserted) and/or manually processed.

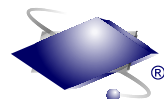
Attachment 7.1.1 contains the Federal Engineering developed DGS Assessment Summary.

One Commonwealth of Virginia agency, Virginia Commonwealth University has elected to outsource its inbound and outbound mail processing operation which is currently maintained under an outside vendor contract.

Outbound mail processed in larger agencies usually maximize postal savings in the form of discounted postal rates achieved through the use of a presort vendor. For the most part, efficiencies have been realized in the larger agencies whereas the smaller agencies are usually less effective in achieving these postal savings.

2.2.2 Mail Operation in other State Governments

Federal Engineering examined current mail operations within other state governments and found a wide range of approaches. Some state governments operate their mail services as an entrepreneurial enterprise, providing mailing services to the entire enterprise. Some states employ high technological standards in print production and the achievement of postal discounts. Many states have centralized their mail services and utilize internal resources to pickup and deliver mail to and from the various sources (USPS, other).



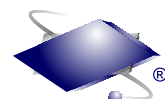
At the forefront of the various state mailing initiatives is the State of Oregon's Information Resources Management Division (IRMD) which provides a fast and efficient means for state agencies to get materials printed and mailed to their customers. IRMD utilizes many specialized printers that can meet the needs of their clients in addition to using automated folding and insertion. As a byproduct, IRMD seeks to achieve maximum postal savings by performing postal address hygiene and preparing mailing addresses as per postal regulations.

Other states, including North Carolina, Iowa, Washington, Kentucky, Tennessee, and Georgia, have already consolidated their mail handling operations, although to a lesser degree than Oregon. These states provide all internal services for postal pickup and delivery of enterprise wide mail and have established internal organizations that handle both interagency and USPS mail. In addition, some offer print and insertion capabilities to their internal customers. Virtually all of these states have realized savings via mail consolidation.

The State of Florida has recently prepared a business case for consolidating and outsourcing agency mail and is now in the process of receiving and analyzing prospective bids. Their proposal calls for the creation of one centralized operation to process all incoming and outgoing mail for the purpose of:

- providing security for inbound mail
- gaining leverage with one common infrastructure
- utilizing technology to support common document composition and address hygiene (print and insertion)
- providing built-in integrity checks and mailing validation
- increasing throughput and quality of mail production
- reducing costs while enhancing services
- eliminating redundant efforts in mail handling and production.

Florida's effort is driven by many factors similar to those faced by the Commonwealth of Virginia. One of these factors in particular is the cost avoidance of replacing analog postal meters as per USPS requirements by 2006. Additionally, Florida is seeking to eliminate the financial impacts of retaining excess postal meters not only as equipment on the books but as postal funds that reside unused on those meters.



The Florida effort has projected annual savings of \$5.6M on a \$28.7M mail budget.

Attachment 7.1.2 includes a summary of state government mail processes as well as various state postal articles.

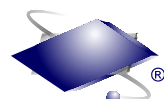
2.2.3 Current Mail Security Trends

Federal Engineering along with its business partner, PBS&J studied existing mail security trends in government and private industry, including an analysis of the available mail security equipment. During the analysis, it was discovered that the USPS currently performs biological screening on stamped letter mail testing for anthrax-related threats. Metered mail originating from a known source (postal meter number) is not perceived by the USPS as a high risk threat and therefore is not screened. Flat mail (those envelopes larger than a legal-sized envelope) pieces are currently not biological tested. The existing system implemented in the USPS for stamped mail bio-detection is expandable to detect other threats should a new threat be identified. The USPS has plans to start testing flat mail sometime in 2006.

FE does not recommend the use of biological testing at this time due to testing performed by the USPS, the current threat level, and particularly the high costs associated with the equipment purchase, maintenance and labor intensive testing. Any efforts exerted on biological testing by the Commonwealth would probably be redundant on the high risk mail that the USPS already tests. Costs associated with this security equipment are provided in subsequent sections of this document in order for the Commonwealth to determine what level of security they deem appropriate within each of the short term options.

Attachment 7.1.3 contains the USPS security testing procedures and practices.

Attachment 7.1.4 contains the Mail Security Program strategies.



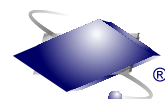
Attachment 7.1.5 contains e-mail correspondence from UPS and Fed Ex indicating their level of security screening.

3 Recommendations

3.1 Mail Management Organization

Federal Engineering recommends that the Commonwealth of Virginia should centralize the oversight of all mail management functions into a single Mail Management organization. **FE** recommends that this organization have the ability to provide guidance and direction on all mail concerns including the procurement of mail handling resources. In the current Commonwealth of Virginia environment, mail management is fragmented within the individual agencies. Most agencies select and procure their own equipment and design and implement their individual mail processes. **FE's** analysis concluded that much inefficiency in the mail services process is due to the fact the each agency has acted independently. Since most agencies procure and maintain their own postal equipment (meters, bases, scales) annual vendor costs in the range of \$357K are incurred by the Commonwealth of Virginia. Additionally, the Commonwealth could be potentially assessed \$234K in penalties in the event of early equipment termination. These penalties may apply even though a general purchase contract was previously established in order to achieve maximum purchase and maintenance discounts. It appears some agencies negotiated their equipment purchases either outside the existing contract or prior to its effective date.

Another example in which the Mail Management organization can serve in a benefiting role is to mitigate the existing situation where many smaller agencies do not utilize any mail presort capabilities which results in a loss of potential postal discounts. A larger agency, Virginia Industries for the Blind, (VIB) also operates in this manner.



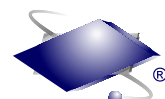
Many agencies currently handle their individual mail pickup and delivery from the USPS and many internal and courier costs are borne by each agency at rates that do not reflect the potential quantity discounts that a consolidated approach could offer. In a consolidated environment, it is highly likely that an arrangement can be made with the USPS to pickup and deliver the mail at no additional costs thereby eliminating internal courier costs.

While meeting with the USPS Postal Business Service Network Manager, Michael Smith, it was discovered that the USPS does not have a Commonwealth of Virginia single point of contact. Due to this fact it is difficult for the USPS to identify and contact the appropriate Commonwealth personnel when issues and inefficiencies with Commonwealth mailings are encountered. A single Mail Management organization could provide this interface.

In the case of mail security, Federal Engineering has concluded that the Commonwealth of Virginia's mail security procedures are not uniformly documented, implemented or enforced. **FE** recommends that the Mail Management organization be responsible for all mail security processes, in addition to having administrative control over all mail handling related issues. Additionally, general security practices should be established and enforced in all Commonwealth agencies that process mail. These practices would be developed by the Mail Management organization and would include perimeter security as well as vehicle security for mail transportation.

Additional responsibilities within the Mail Management organization should include the assessment of new postal mailing technologies and the utilization of technologies for building and maintaining information technology processes. These processes can be instrumental in aiding the mailing process and potentially providing e-commerce and e-business options in place of mail.

The USPS is constantly changing mailing sorting methods and major Commonwealth agencies are required to implement these rules in relatively short periods of time in order to maintain postal discounts. A Mail Management organization would be the focal point for implementation efforts related to these types of USPS changes.



Federal Engineering strongly believes that the Commonwealth of Virginia can obtain immediate savings in postal costs by instituting a Mail Management organization to provide governance over all mail related activities. This recommendation will be of value regardless of which options the Commonwealth of Virginia chooses to implement. In either a centralized mail services environment or an individual office environment (as-is), this organization can achieve efficiencies resulting in both cost savings and a standardized structure.

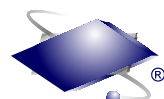
As part of a long term strategic effort, Federal Engineering recommends that the Commonwealth of Virginia print and insertion process be considered for inclusion under the Mail Management organization. Although, the DGS study excluded print and insertion, these services are vital to the complete mail cycle. Any consolidation of outbound mail production should include both components. From an organizational prospective, both processes are mutually business dependent. If print is not included in the mail processing centers, Federal Engineering strongly believes that the recommended long term vision for mail processing would be significantly diluted.

Attachment 7.1.6 contains a description of the proposed Mail Management Organization proposal.

3.2 Mail Services Operation

Federal Engineering has developed five recommendations related to mail consolidation and security. These recommendations include a long term strategic vision along with four short term options that can be used as "building blocks" for the future. The long term strategic vision is where the Commonwealth of Virginia should be directing their future activities and resources.

The Federal Engineering/Commonwealth of Virginia teams reviewed several long and short term options to help achieve the ultimate long term strategic vision. Each option was analyzed and investigated for cost effectiveness and operational feasibility.



Attachment 7.1.7 contains the analysis of the options reviewed and the reasoning for acceptance or rejection of the option.

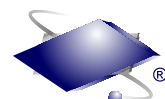
3.2.1 Long Term Vision

Federal Engineering recommends that the Commonwealth transfer existing mail operations from the agencies that support the Commonwealth of Virginia and consolidate all processing into two load-leveled mail processing centers. These centers will have the ability to process and screen inbound mail and parcels and also control the flow of outbound mail. The Commonwealth, by structure, typically operates only during normal business hours. **FE** recommends that since mail operations are continuous in nature, they should be operating as such. Large volume mail operations are usually an extended hour operation. Operating in a longer window of time will provide the Commonwealth with opportunities to screen mail and prepare mail in the most efficient and cost effective manner.

Based upon industry standards, most major mail houses and fulfillment houses operate independently. In addition, large corporate mailers usually operate as separate entities from the core business. This approach will be a change in direction to how the Commonwealth operates; however, it is general industry practice.

FE also recommends that the print operation (which was not part of the original project scope) be considered as a cohesive part of the outbound mail operation and also be moved from the various agencies to the Mail Management organization. Print and insertion functions are integral components of the mail services environment and should be managed and operated within the same organization.

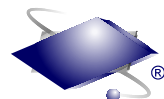
The two recommended mail processing centers should be governed by a single Commonwealth entity that manages all of the Commonwealth's mail decisions and future direction. The organization should function as a supplier for the Commonwealth's internal and external clients. The Mail Management organization as previously described, should be an active participant in all new and enhanced mailing recommendations, be a member on the Richmond USPS Postal Customer Council (PCC) and be the focal point for all mail and mail security related requests.



Based upon Federal Engineering's assessment and the Commonwealth's desired level of security; **FE** recommends that the Commonwealth utilize standardized security procedures and practices across all agencies including the use of X-ray technology. Federal Engineering recommends that the centralization of inbound mail processing within a single Mail Management organization will help minimize the impact of any potential threats. The utilization of experienced mail screening personnel will allow for more effective and consistent security screening of mail. Other technologies such as; biological testing are currently not efficient or cost effective for use in the Commonwealth's mail processing environment. Use of this type of equipment is costly for initial purchase, ongoing maintenance, daily usage and additional labor requirements. The use of this type of technology does not completely identify all potential threats but it can help mitigate threats of a usual and known nature. Centralizing security screening within the Mail Management organization will benefit the Commonwealth by containing threats outside of the core business and also by allowing for a more standardized process to be followed in the event of a security related incident.

Federal Engineering during its analysis, determined that there is fragmented use of mail related technologies in the Commonwealth's various agencies. Some agencies (usually larger mailers) utilize technology to a greater extent than others. Federal Engineering recommends that technologies be consolidated and customized for the major Commonwealth operations. This would include use of technology to create customized and standardized mailing correspondence, extended use of e-technology for constituent's payments and correspondence, and utilizing technology as a driver for development of future printed media forms. Federal Engineering suggests that the Commonwealth be prepared for the E-generation of new constituents.

Additional factors considered in the development of the recommendations included the fragmented delivery schemes used throughout the Commonwealth's operation and the many vehicles and level of labor expended on mail transportation. Additionally, the equipment deployed in mail production activities is generally antiquated and in some cases redundant. The Commonwealth incurs significant expenses related to the purchase and ongoing maintenance of its equipment. It is recommended that any future equipment purchases be linked to



adherence to the future long term strategic vision of the Commonwealth of Virginia. Additionally, equipment replacements and upgrades should be planned in alignment with the long term mail environment and not just for immediate short term use.

The DGS study revealed that some agencies declined to participate in any consolidation activities due to legally mandated or business related reasoning as to why their mail processing cannot be consolidated. While Federal Engineering's recommendations can only highlight and propose best practices, it may require further action by the Commonwealth to address legal and business concerns in order to achieve consolidation. Further analysis also reveals that some agencies either send or receive sensitive parcels that cannot be security screened which may be excluded from this process and some agencies require positive mailing notification via a courier. Other agencies that perform specific roles such as the Virginia Industries for the Blind may continue operations in their current state, although some recommendations pertinent to their environment may result in additional savings and efficiencies.

Attachment 7.1.8 contains the detailed description of the Long Term "Vision".

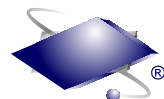
3.2.2 Short Term Recommendation

The four selected and approved short term options are:

3.2.2.1 State Mail Services - Inbound Mail Processing

Consolidate secure inbound mail services for small Commonwealth enterprise-wide operations into a larger organization. Federal Engineering recommends the State Mail Services (SMS) operation serve this role to initially receive and screen the Commonwealth's inbound mail. Utilization of this internal organization will yield potential benefits in mail distribution and transportation. Reliance on the State Mail Services organization will eliminate redundant mail pickups and deliveries by smaller agencies and the USPS while maximizing the current State Mail Services transportation network.

Attachment 7.1.9 contains the detailed description for the SMS Inbound Mail Processing option.



3.2.2.2 State Mail Services - Outbound Mail Processing

Consolidate outbound mail services for small Commonwealth enterprise-wide operations into a larger more defined organization. **FE** assessed the State Mail Services operation as a potential agency that can manage this function and reap immediate efficiencies as well as postal expense and postal equipment savings. This option along with the expanded use of a presort vendor will enable the Commonwealth to maximize postal savings.

Attachment 7.1.10 contains the detailed description for the SMS Outbound Mail Processing option.

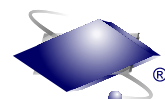
3.2.2.3 Priority Location – Inbound Mail Processing

Consolidate secure inbound mail services for the larger Priority Locations into the 7 largest Priority Locations. This method would utilize SMS services to transport the USPS inbound mail to the 7 Priority Locations and deliver the screened mail to the remaining Priority locations. The Priority Locations utilizing the security equipment and supplying inbound mail screening include; State Corporation Commission, Department of Motor Vehicles, Employment Commission, Social Services, Worker's Compensation, Department of Taxation and State Mail Services. Priority Locations utilizing these services include; Alcoholic Beverage Control, Education, Transportation, Health, Medical Assistance, and Virginia Probation and Parole.

Attachment 7.1.11 contains the detailed description for the Priority Location Inbound Mail Processing option.

3.2.2.4 Priority Location – Outbound Mail Processing

Consolidate outbound mail services for all small agencies into Priority Locations. This method would utilize SMS services to transport the small agency outbound mail to be metered and processed for final postal disposition (USPS or presort vendor). The Priority Locations supplying outbound mail services include; Corporation Commission, Department of Motor Vehicles, Employment Commission, Social Services, Worker's Compensation, Department of Taxation and State Mail Services, Alcoholic Beverage Control, Education, Transportation, Health, Medical Assistance, and Virginia Probation and Parole.



Attachment 7.1.12 contains the detailed description for the Priority Location Outbound Mail Processing option.

3.2.3 Conclusion

These recommended short term options will provide the building blocks for the eventual realization of the long term strategic vision. The security and processing equipment utilized can be redeployed in the future environment resulting in little to no equipment redundancy.

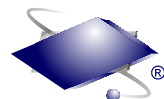
While this effort did not examine all information technology and printing functions, other short term relief can be realized by defining and developing some additional projects within the Commonwealth of Virginia such as;

3.2.3.1 Mechanized Letter Generation

Analyze and define a series of information technology initiatives in order to undertake a consolidation effort with the goal of producing a Commonwealth enterprise-wide mechanized letter generation process for the majority of the Commonwealth agencies. This process will mechanically produce machine insertable letters that can be processed in either a Priority Location mailing center or migrated to any center that has print and insertion capabilities. By including letter generation into the mechanized mailing chain, USPS requirements can be met and in some cases, postal cost savings can be realized. The use of newer technology allows for generation of digitized signatures and personalization of mechanized letters through a mechanized printing process. The centralization of mechanized letter generation also promotes technology refresh and the ability to accommodate changing USPS requirements at much lower costs.

3.2.3.2 Standardize Mail Practices

Develop and implement standardized mail printing practices and standardized use of postal software to "cleanse" mechanized mailing addresses. The USPS continues to institute incentives and penalties to promote such "cleansing".



Both of these proposed projects would require further definition and design in conjunction with input from the agencies and the Virginia Information Technology Agency (VITA).

4 Short Term Project Financials

For each of the recommended short term options, Federal Engineering developed the associated cost savings models based upon the known costs from the DGS study. Due to the nature of the long term strategic vision, financials cannot be determined within this phase of the project.

4.1 SMS Option

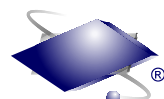
Savings that can be realized from the implementation of both inbound and outbound consolidation is estimated at \$540K. An additional one-time savings of \$261K will be realized by avoiding the costs of replacing existing postal meters as per the USPS 2006 directive.

To implement the short term SMS option the costs for the project for procurement of security equipment is estimated in the range of \$76K to \$322K with an estimated 2nd year maintenance costs from \$8K to \$64K. At the discretion of the Commonwealth, existing X-ray equipment in SMS can be used.

Note: Security equipment costs are full MRSP without benefit of any competitive government procurements or volume purchase discounts.

The following shows a breakdown of costs for each category:

<u>Inbound Security Option:</u>	(2)		
	X-ray	X-ray/Exp	Biological
Security capital expense	\$76,345	\$186,587	\$322,634
Security maintenance expense (after first year)	\$7,634	\$27,988	\$64,527



Mail Services Initiative

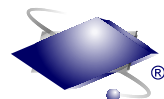
As an addendum to the inbound mail screening in SMS, an additional labor expense of \$13,650 will be incurred by SMS, if SMS screens Priority Location mail for the 6 Priority Locations that do not possess X-ray equipment.

Inbound Mail Processing Option:

SMS labor expense	\$27,301
SMS vehicle expense	\$ 5,000
SMS real estate expense	\$19,939
SMS relocation expense	<u>\$10,000</u>
Total expenses	\$62,240
Agency vehicle redeployment savings	\$ 7,793
Agency labor redeployment savings	\$48,161
Courier savings	<u>\$48,533</u>
Total savings	\$104,487
Net savings for Inbound mail handling option only	\$42,247

Outbound Mail Handling Option:

SMS labor expense	\$27,301
SMS vehicle expense	\$ 5,000
SMS real estate expense	\$19,939 (1)
SMS relocation expense	<u>\$10,000 (1)</u>
Total expenses	\$62,240 (1)
Presort savings	\$181,980
Agency vehicle redeployment savings	\$ 7,793
Agency labor redeployment savings	\$139,801
Postal meter savings	<u>\$201,430</u>
Total savings	\$531,004



Net savings for outbound mail processing only	\$468,764
Net savings for both inbound and outbound options	\$540,950 (1)
Postal meter cost avoidance savings	\$261,058

- (1) Real estate and relocation expenses will be incurred once.
(2) Security costs for explosive and biological detection are for reference Purposes and are not recommended at this time.

4.2 Priority Location Option

The recommended Priority Location outbound option would be implemented in the event that the SMS option is rejected. In the event the SMS option is selected, this option and associated savings will not apply. **FE** recommends the Priority Location option only as a secondary choice.

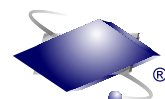
Savings that can be realized from the implementation of outbound consolidation is estimated at \$498K. An additional one-time savings of \$261K will be realized in avoiding the costs of replacing the antiquated postal meters as per the USPS 2006 directive.

To implement the short term Priority Location option the costs for the project for procurement of security equipment is estimated in the range of \$458K to \$1,305K with an estimated 2nd year maintenance costs from \$45K to \$261K. An opportunity to reuse existing SMS X-ray equipment may negate any X-ray costs for implementation of inbound mail security.

Note: Security equipment costs are full MRSP without benefit of any Government or volume purchase discounts.

The following shows a breakdown of costs for each category:

<u>Inbound Security Option:</u>	X-ray	X-ray/Exp ⁽²⁾	Biological
Security capital expense	\$458,070	\$952,469	\$1,305,969



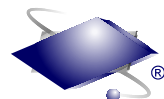
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Security maintenance expense (after first year)	\$45,807	\$142,870	\$261,194
PL labor expense		\$36,401	
SMS vehicle expense		\$ 2,000	
SMS labor expense		<u>\$ 4,550</u>	
Total operating expenses		\$42,951	
Total expenses (X-ray included)		\$501,021	
Agency vehicle redeployment savings		\$ 2,681	
Agency labor redeployment savings		<u>\$36,123</u>	
Total savings		\$38,804	
Net expense for Inbound mail handling option only			\$462,217

Outbound Mail Processing Option:

SMS labor expense	\$27,301	
SMS vehicle expense	<u>\$5,000</u>	
Total expenses	\$32,301	
Presort savings	\$181,980	
Agency vehicle redeployment savings	\$ 7,793	
Agency labor redeployment savings	\$139,801	
Postal meter savings	<u>\$201,430</u> (1)	
Total savings	\$531,004	
Net savings for outbound mail processing only		\$498,703
Net savings for outbound option		\$498,703
Postal meter cost avoidance savings		\$261,058

(1) Estimated early termination fees can result in penalties of \$47,897 to \$95,795. These fees are not reflected in the savings.



- (2) Security costs for explosive and biological detection are for reference Purposes and are not recommended at this time.

4.3 Virginia Industries for the Blind (VIB) presort savings

The renegotiation of the Mailer's Resource Group presort contract can potentially result in an immediate reduction in postal charges incurred by VIB. The estimated savings can amount to over \$35,000 annually based upon VIB's current postal volume.

Additional detail regarding this savings can be found in Attachment 7.1.13 (Transition Plan).

5 Proposed Transition Plan

This high-level review of the transition plan addresses the immediate short term objectives of the Commonwealth.

Attachment 7.1.13 contains the detailed Transition Plan.

5.1 Mail Management Organization

Establish a Commonwealth enterprise-wide Mail Management organization to manage all existing and future aspects of the Commonwealth's mail processing. Responsibilities would include serving as the Commonwealth's single point of contact and USPS liaison. Additional responsibilities include; procurement management, contract management, and project control over consolidation timetables.

Attachment 7.1.6 contains the organization structure of the proposed Mail Management Organization.

5.2 Short Term Savings

The Commonwealth can begin to obtain some short term savings by reviewing and prioritizing the following tasks:



- Renegotiate presort vendor contract to include Virginia Institute for the Blind (VIB) outbound mailings.
- Initiate postal meter retirement plan to remove obsolete postal meters in conjunction with implementation of either of the short term outbound options. Maximize potential savings by transitioning the lower volume small agencies outbound mail into the SMS location. This process could be scheduled and transitioned at will.
- Renegotiate presort vendor contract to include short term option outbound mailings.

5.3 Security

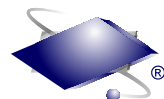
Determine level of inbound security desired and secure necessary funding to procure selected security equipment

- Develop and implement standard mail security procedures
- Size equipment and prep selected sites
- Train affected personnel
- Initiate conversion of inbound mail processing to Priority Locations and SMS

6 Recommended Next Steps

The intensive ten-week effort that culminated in this document has identified immediate potential savings. However, many open items remain in the administration of such an undertaking, including:

- internal agency resistance to consolidation
- internal agency business commitments may prohibit agency active participation in the effort
- coordination of agency conversions
- coordination with vendor resources



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- USPS postal interaction
- analysis of existing print and insertion agency operation
- analysis of information technology mechanized print and mail operations
- project administration and reporting.

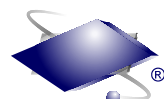
Each of these items must be addressed as the Commonwealth moves into the implementation phase of this program.

Federal Engineering recommends that the Commonwealth initiate the following actions to effect implementation:

- Obtain Executive Level concurrence on selected short term options and long term strategic vision. The short term options will provide immediate benefit and create a secure mail handling environment.
- Determine appropriate project funding allocation (short and long term) for project and security equipment.
- Assign an Implementation Management Team to plan and execute short term goals

Recommended short term tasks

- . Assign Project Manager
- . Define organization and labor requirements
- . Establish a mail user group composed of agency representatives to serve as an advocate of user needs
- . Communicate project initiative, intentions and commitment
- . Establish a program management office and develop detailed program plan to manage the project
- . Initiate security analysis effort to define and standardize mail security practices and procedures
- . Define necessary building layouts and physical security layouts

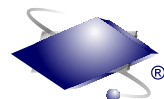


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- . Execute contracts - real estate, building layout, security equipment
- . Develop procedures and train Commonwealth of Virginia personnel on security procedures and proper equipment usage
- . Initiate agency migration to short term options for inbound and outbound mail
- . Monitor implementation and report results
- Assign an Implementation Development Team to define, develop and implement the long term strategic plan

Recommended long term strategy tasks

- . Develop long term plan to consolidate into two mail center and document specific Commonwealth goals
- . Continue analysis of all Commonwealth agency print and insertion functions with the goal of merging them into the consolidated mail centers
- . Continue analysis of all Commonwealth VITA print processes and procedures utilized in the Commonwealth's agencies
- . Coordinate Mail Management organization plans with future VITA information technology and Business Plans
- . Develop a long range implementation plan for consolidation
- . Develop final costs and long term savings associated with long term implementation
- . Develop long term transition plan to migrate operations, equipment, and personnel into the consolidated centers
- . Implement the plan



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The implementation of the short term options will achieve immediate savings at minimal costs. In addition, the savings identified will offset the security expenses resulting from the post 9/11 environment. Even greater savings will be achieved as the Commonwealth further refines the long term vision and implements a consolidated mail operation.

